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## Low-Income Families in Massachusetts: Results from the Family Resource Simulator

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About 85 percent of low-income children have parents who work, and most have at least one parent working full-time, year-round. Nonetheless, many of these parents are unable to afford basic necessities for their families, such as food, housing, and stable child care. Even a full-time job is not always enough to make ends meet, and many parents cannot get ahead simply by working more. As earnings increase—particularly as they rise above the official poverty level—families begin to lose eligibility for work supports. At the same time, work-related expenses, such as child care and transportation, increase. This means that parents may earn more without a family experiencing more financial security.<sup>1</sup> In some cases, earning more actually leaves a family with fewer resources after the bills are paid.

The Family Resource Simulator, developed by the National Center for Children in Poverty, illustrates how this happens. This web-based tool calculates resources and expenses for a hypothetical family that the user “creates” by selecting city and state, family characteristics, income sources, and assets. The user also selects which public benefits the family receives when eligible and makes choices about what happens when the family loses benefits (e.g., does the family seek cheaper child care after losing a subsidy?).

The result is a series of charts that show the hypothetical family's total income from various sources as earnings rise, as well as the cost of basic family expenses. Using the Simulator, this report describes the experiences of two hypothetical families in the workforce.

### Low Income in Massachusetts: The Taylors

The Taylors live in Boston with two children, ages 3 and 6. The federal poverty level for such a family is \$18,850 per year.<sup>2</sup> For simplicity, the Simulator assumes that the Taylors begin with no income; then one parent enters the workforce and steadily increases hours to full-time employment. After that, the second parent begins part-time work and gradually moves into full-time employment. When the Taylors' employment requires outside child care, both children go to child care centers (the 6-year-old goes after school). The Taylors pay taxes on their earnings, and when they qualify, they receive earned income tax credits—including Massachusetts' refundable state credit—and the federal Child Tax Credit. In addition, the Taylors receive food stamps and public health insurance.

The family's basic expenses, however, well exceed the family's resources until the parents' earnings reach nearly three times the federal poverty level. It takes full-time work at more than \$9 per hour just to cover the cost of housing.<sup>3</sup> And the family's other resources—tax credits and food stamps—are not nearly enough to cover the cost of food, transportation, and other necessities for a family of four. (See Figure 1.)

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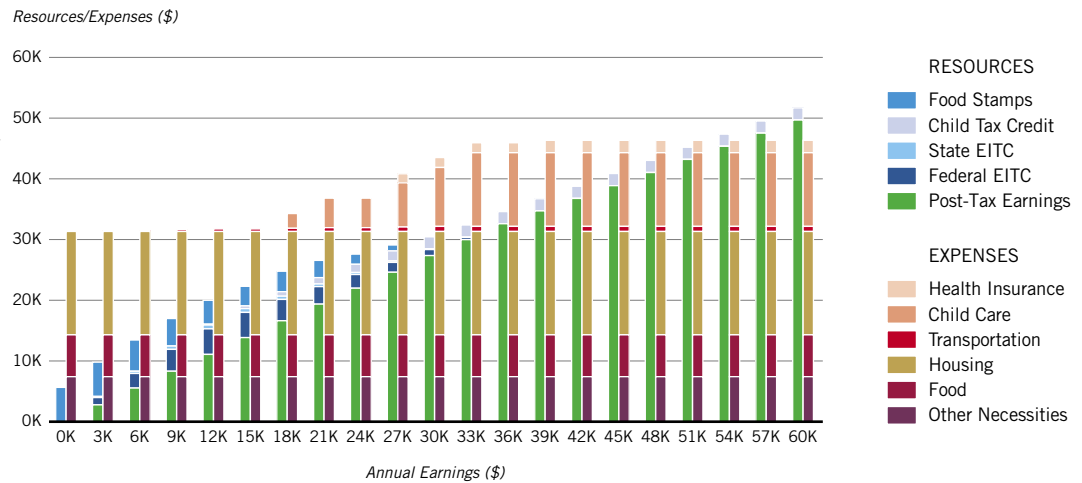
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**Figure 1: Taylor Family****Family Resources and Basic Expenses**

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When the second parent enters the workforce, the Taylors' earnings increase, but so do their work-related expenses, particularly child care. At the same time, the family begins to lose eligibility for the benefits that support work. By the time both parents are working full-time—together earning about \$33,000 per year—the family is no longer eligible for food stamps, and the parents have lost public health insurance coverage. In addition, federal and state earned income tax credits, which provided close to \$5,000 per year in support at lower earnings levels, have nearly phased out. The value of the Massachusetts state credit alone has fallen from a high of \$631 per year to just \$53.

At \$39,000 in annual earnings, the children lose public health insurance, further increasing the family's expenses. This simulation assumes that the Taylors have insurance through an employer. Without this benefit, the Taylors would have to pay substantially more or go without health insurance.<sup>4</sup> The Taylors' resources don't exceed expenses until their earnings reach \$53,000—280 percent of the federal poverty level. In other words, each parent needs a full-time job earning nearly \$15 per hour just to make ends meet.

Housing and child care are the Taylors' most daunting expenses. Massachusetts' income tax code allows families to deduct a portion of their rent costs in calculating state tax liability, but this saves the Taylors only \$160 per year.<sup>5</sup> With housing vouchers and child care subsidies, a full-time job at \$5.50 per hour would provide the family with just enough income to meet basic expenses. However, funding for these benefits is limited, and only a fraction of eligible families receive them.

Thousands of families in Massachusetts have resources and expenses similar to the Taylors. There are 219,000 low-income families living in the state, and 67,000 of them have a preschool-aged child (under age 6). Among low-income families in Massachusetts, 78 percent have at least one parent who works, and 46 percent have a parent who works full-time, year-round. Thirty-six percent are two-parent families.

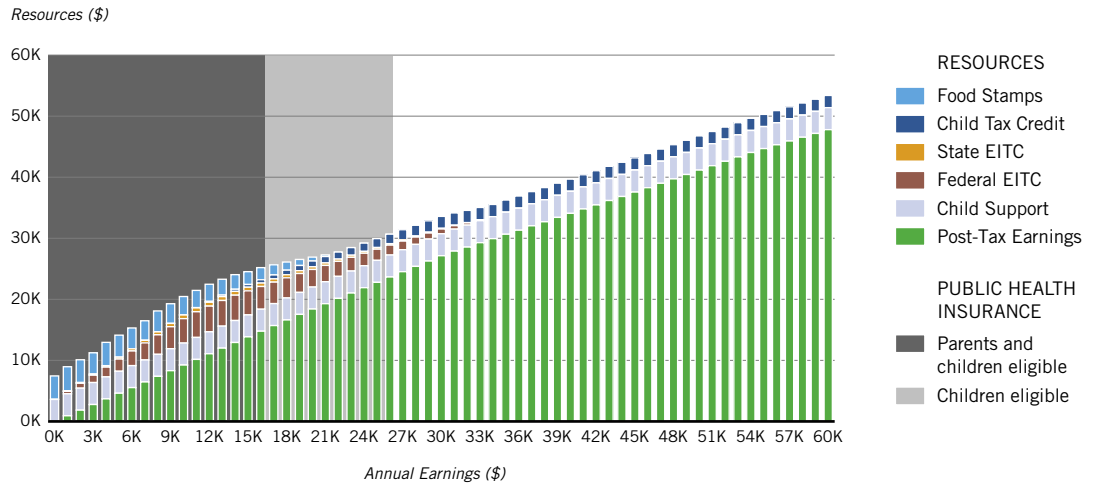
**Low Income in Massachusetts: The Millers**

Ms. Miller is a single mother living in Worcester who also has two children, ages 3 and 6. The federal poverty level for this family is \$15,670.<sup>6</sup> When Ms. Miller's earnings are low, the family receives the same public benefits as the Taylors—income tax credits, food stamps,

**Figure 2: Miller Family**

**Family Resources**

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and public health insurance. Ms. Miller also receives child support payments of \$300 per month.<sup>7</sup> These payments significantly increase the family’s resources, but they also reduce the family’s food stamp benefits (see Figure 2).

Being a single parent makes providing for a family’s basic needs even more challenging, but the cost of living is significantly less in Worcester than in Boston. Housing costs are 40 per cent lower than in Boston, and Ms. Miller spends significantly less on child care because a license-exempt provider cares for her children at home while she is at work. This care costs about one-third of the cost of center-based care. Her transportation costs, on the other hand, are somewhat higher than the Taylors’ because she needs a car to commute to work, while public transportation is available in Boston.

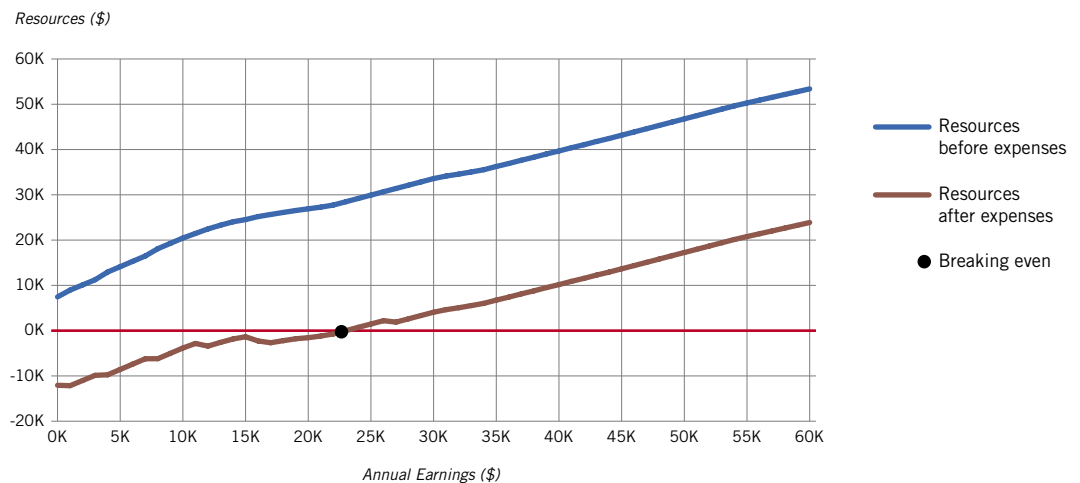
Still, as with the Taylors, Ms. Miller’s work-related expenses increase as she moves from part-time to full-time employment. Moreover, just as Ms. Miller reaches full-time employment—earning about \$17,000 per year—she loses public health insurance coverage (although her children remain eligible). The loss of this important benefit widens the gap between her family’s resources and the cost of basic necessities (see Figure 3).

Thus with child support payments, federal and state tax credits, food stamps, children’s public health insurance coverage, and a full-time, year-round job paying roughly \$9 per hour<sup>8</sup>—

**Figure 3: Miller Family**

**Resources Before and After Expenses**

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more than \$2 per hour above the state's minimum wage—Ms. Miller does not have enough money to provide for her family. The Millers' resources do not exceed the cost of basic expenses until Ms. Miller's earnings increase to \$23,000 per year. This means that Ms. Miller is not able to make ends meet until she earns nearly \$13 per hour. Even at this wage, she is unable to afford anything beyond her family's basic necessities.

## Challenges for Policymakers

Federal and state budget woes threaten existing work supports for low-income families. Nearly half the states have reduced access to child care subsidies by lowering income eligibility limits and/or increasing family co-payments. More than 30 states have approved or proposed cuts to their public health insurance programs that affect low-income children and/or parents' access to coverage. Many of these changes hit families just above the poverty level the hardest. At the same time, unemployment remains high, and job creation has been slow. As policymakers respond to the difficult choices they face, understanding the impact of public policies on the resources and work incentives of low-income working families is critical.

## Endnotes

1. Cauthen, N. K. & Lu, H. (2003). *Employment alone is not enough for America's low-income children and families* (Living at the Edge Research Brief 1). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <[www.nccp.org/media/lat03a-text.pdf](http://www.nccp.org/media/lat03a-text.pdf)>.
2. The analysis in this report is based on tax and benefit policies in effect in December 2003; the 2003 poverty level for a family of four was \$18,400. See <[aspe.hhs.gov/poverty/index.shtml](http://aspe.hhs.gov/poverty/index.shtml)> for more information about federal poverty measures.
3. The cost of housing is estimated based on the federal Fair Market Rent used by the U.S. Department of Housing and Urban Development in December 2003 for a 2-bedroom home in Boston: \$1,419 per month. See <[www.huduser.org/Datasets/fmr.html](http://www.huduser.org/Datasets/fmr.html)> for more information.
4. The percentage of employees that receive health benefits at work has steadily declined in recent years. According to the March 2003 National Compensation Survey, among employees in the private sector, only about half receive medical care benefits through their employers, and the rate is lower among employees with wages of less than \$15 per hour. See: U.S. Bureau of Labor Statistics. (2003). *Employee benefits in private industry*, Table 1: Percent of workers participating in health care and retirement benefits, by selected characteristics, private industry <[www.bls.gov/news.release/ebs2.t01.htm](http://www.bls.gov/news.release/ebs2.t01.htm)>.
5. In addition, since the tax deduction is non-refundable, no benefit is provided to families whose incomes are so low that they don't pay state income taxes. In this simulation, the Taylors do not receive a benefit until their annual earnings reach about \$18,000.
6. The 2003 federal poverty level for a family of three was \$15,260. See endnote 2.
7. According to 2001 NSAF data, among families in which children are living with their mothers and have non-custodial fathers, just under half receive child support payments. For poor families, the likelihood of receiving child support is much lower—only about 36 percent receive payments—and for those who receive child support, the average received is \$2,550 per year, or \$213 per month. For families with income between 100 and 200 percent of the poverty level, about 50 percent receive payments, and the average received is \$3,980 per year, or \$332 per month. See: Sorensen, E. (2003). *Child support gains some ground* (Snapshots of America's Families III, No. 11). Washington, DC: Urban Institute <[www.urban.org/UploadedPDF/310860\\_snapshots3\\_no11.pdf](http://www.urban.org/UploadedPDF/310860_snapshots3_no11.pdf)>.
8. Given research indicating that persons leaving TANF cash assistance for employment typically earn more than the minimum wage, the Simulator assumes that parents earn the 20th percentile wage when they enter the workforce. In Massachusetts, the 2001 20th percentile wage was \$9.12 per hour. See: Mishel, L.; Bernstein, J.; & Boushey, H. (2003). *The state of working America, 2002/2003* (An Economic Policy Institute Book). Ithaca, NY: Cornell University Press.

To learn more about the impact of public policies on low-income families in Massachusetts, go to NCCP's Family Resource Simulator at [www.nccp.org](http://www.nccp.org).